DOCUMENT RESUME

ED 358 522 EA 024 937

AUTHOR Schoppmeyer, Martin; Venters, Tommy
TITLE Arkansas' Disappearing Tax Base.
PUB DATE Mar 93
NOTE 10p.; Paper presented at the Annual Meeting of the American Education Finance Association (Albuquerque, NM, March 1993).
PUB TYPE Speeches/Conference Papers (150) -- Reports - Evaluative/Feasibility (142)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS *Educational Finance; Elementary Secondary Education; *Fiscal Capacity; Property Taxes; *Public Schools; School Support; School Taxes; State Action; *State Legislation; *Tax Effort; *Tax Rates
IDENTIFIERS *Arkansas

ABSTRACT

State legislation that has contributed to the reduction of Arkansas' tax base is described in this paper. Amendment 59, adopted in 1980, has reduced the state tax base by millions of dollars. At the end of 1992, the majority of school districts have equalized their real, personal, and carrier and utility property. Act 34, the current foundation program, depletes wealth through its treatment of miscellaneous funds, of real property, and of personal, carrier, and utility property. Amendment 71, which removed all household goods from the personal-property-tax rolls and advanced the tax year for motor vehicles, will not compensate for lost revenue. Eight alternative sources of revenue are suggested. A conclusion is that Arkansas has been depleting its tax base, resulting in higher taxes on the remainder. Some adjustments must be made. (LMI)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED358522

ARKANSAS' DISAPPEARING TAX BASE

A paper delivered at the American Education Finance Association
meeting in Albuquerque, New Mexico
March 1993

by

Dr. Martin Schoppmeyer
Professor of Educational Administration
University of Arkansas
Fayetteville, Arkansas

Dr. Tommy Venters
Executive Director
Arkansas School Boards Association
Little Rock, Arkansas

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

✓ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

M. Schoppmeyer

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

EA 024 937

It does not seem to be a practical policy for the second poorest state in the union to continue to reduce its tax base. The only possible results of such a policy are either the restriction of public services or increases in the tax rate on the remainder of the base. The latter has seemed to be the prevalent result for Arkansas over the past several years as it has been shrinking its taxable wealth.

The first move in that direction was the adoption of Amendment 59 to the state constitution in 1980. The culmination of the trend would seem to be Amendment 71 approved on the 1992 general election ballot.

Amendment 59 was a product of fear arising from a court order to reassess all of the real estate in the state. It attracted the attention of a number of special interest groups who capitalized on the fear to gain tax advantages for themselves. Hence, the final draft of the amendment contained copious quantities of small print favoring various interests. The amendment created three kinds of property; real, personal, and carrier and utility. These were to be assessed at use value rather than cash value. This change added the timber industry as well as assorted speculators.

Real property, land, and buildings was to be reassessed over a five year period. Millage rates were to be rolled back to a point where the taxing authority (city, county, school district) would receive not more than a ten percent increase in income over the year prior to reassessment.

When schools in one of the first counties to be reassessed id not receive a ten percent increase in revenue they became upset and brought suit. the state supreme court however pointed out that no increase was required by the amendment. Rather if an increase did occur it was limited to ten percent.

Thus Amendment 59 did nothing for school finance even when it increased the tax base. The rest of its scenario made sure it shrank.

Personal property was treated differently. It was not reassessed. Rather the yield from this source was frozen until such a time as the new real property millage would produce an amount equal to or greater than the old pre reassessment millage rate. In other words, the amount of personal property would have to increase to a point where the new lower millage would yield an income equal to the old millage on a lower base. Until such equalization took place no added funding for schools could be anticipated from this source. In some districts the process could take decades during which time no new income could be anticipated.

Carrier and utility property received yet a third treatment. The yield was frozen for five years. At that point the income from the new real property millage was calculated. This was then subtracted from the frozen amount. Taxes were then to be reduced at the rate of twenty percent of the difference over a second five year period.

It is the continued disparity between real and personal property millage rates that has been he most troublesome aspect of the amendment. The authors and supporters of the amendment believed that equalization would be realized much sooner than now appears likely. As yet, there are not counties in Arkansas where the personal property rate equals the real property rate for all taxing jurisdictions. For example, the average difference between the two rates for school districts is about 6 mills; in many cases, the difference is greater than 20 mills. Because the amendment freezes personal property tax revenues, school districts especially find that they are confronted with a lingering funding problem.

The old 59 school millage was 54.75 mills. The new 1992 state average is 28.66. Hence for there to be an increase in yield from personnel property, its assessment must on the average almost double. Therefore millions of the tax base have disappeared.

How does this affect the school districts around the state?

The Present Condition

What Amendment 59 has meant is that local school income could only be increased by a millage rise on real property. Carrier and utility payments are being gradually and systematically reduced. Personal property yield has not grown from either increased assessments or from new higher millage rates. By 1989, the size of the lost potential revenue amounted to 106.2 million dollars.

The Amendments' time table rolls on. By the end of 1991, 201 of the states then 321 school districts had equalized real and personal property. By the end of 1992, 45 of the states 75 counties have equalized real and carrier and utility property. Thus, it must be concluded that at the close of 1992, the majority of school districts have equalized their real, personal, and carrier and utility property. They have absorbed the losses and made them up from other sources.

The owner of large inventories have had their taxes cut. Utilities have increase their profits and the entire state has witnessed a tax shift from personal and carrier and utility property to real property. Farms and homes now pay more.

Act 34

Act 34, the current foundation program makes wealth disappear when it should be being used to calculate local ability to support schools. It does this in these ways: its treatment of miscellaneous funds, its treatment of real property and its treatment of personal, carrier and utility property.

1. Miscellaneous Income

Funds received by schools in lieu of taxes include Federal Forest Reserve, flood control, severance taxes and all federal and private payments. It is a special treatment for districts with large timber properties. Only 75 percent of this income is calculated in local wealth. The rest is left to help disequalize. Wealth has disappeared.

2. Real Property

The value of real property was a problem when the law was passed. For at the time, the state was in the throes of reassessment. The original proposal was to calculate real property wealth at 16 mills. This was raised to 19 by supporters of equity. In 1989, the charge was permitted to rise a high as 25 mills depending upon the level of state appropriation for the foundation program. At present it stands at 23.9. But the average millage rate for schools in the state is 28.66. This means that the average district has more funds available than those being considered as local wealth.

It has been proposed in the legislature that the charge be allowed to rise to the level of the average. This would still permit half the districts to have added funds that are not part of the calculation for equalization. Wealth would still disappear as it is doing currently.

3. Personal and Carrier

At the time of the passage of Act 34 no one knew where these varieties of wealth would end up considering their odd treatment. The year immediately preceding real property assessment was selected as a base for each school district. A millage rate of 45 mills was selected as the basis for determining wealth. This caused a good deal to disappear as the average millage in the state in 1981 was 54.75. The yield from the excess mills was not a part of equalization.

Change in the yield was also handled strangely. Should there by an increase on decrease in the taxes from these sources, the percentage rise or fall is calculated. That percentage is then applied to the pre reassessment assessment and 45 mills charged on the result. In the case of an increase, this results in capturing only 82 percent of the actual amount. Hence more wealth disappears.

Therefore, Act 34 permits wealth which should go into equalizing educational expenditures to be hidden. This is not quite making it disappear but disappears enough to circumvent equity.

Amendment 71

Amendment 71 to the state constitution began life as Senate Joint Revolution Eight (SJR8). It appeared on the November 1992 ballot. Quite simply what it did was to remove all household goods from the personal property tax rolls.

The potential loss from the Amendment is difficult to estimate, for two reasons. Primarily, this is because the amendment is written in two parts. In fact, during the discussions over the proposal it was likened to the biblical example of the old adage: "The Lord giveth and he taketh away."

First, many counties do not distinguish between household property and other types of personal property on their tax rolls, and state-wide averages were not reliable for certain counties and school districts. During a series of regional workshops, for example, it was discovered in at least one county that the assessor had reversed several categories, allowing his local officials to overestimate their potential losses by a factor of seven.

Second, at this time it is not know if legislative changes will be made to replace the revenue loss from Amendment 71. Although several options exist for school districts, the most likely outcome is that the legislature will try to

substitute personal property taxes on motor vehicles for taxes on household property.

However, we can estimate the loss from household personal property with some dependability. Based on the 1990 assessment data (for 1991 collections) available from the state Assessment Coordination Division (ACD), the total loss of revenue will be between $13.5 and $14 million; local schools will lose the bulk of this money, about $10.5 to $12 million annually.

In addition, data are available from some counties for 1991 assessments; these indicate that growth in household personal property was about ten percent. If this pattern continues and Amendment 71 takes effect with the 1993 assessment year, as a member of the Attorney General's office has suggested, the total loss of revenue would be between $18 and $20 million. Also, some assessors expect a decline in other personal property assessments (e.g., boats, farm equipment) if household effects are no longer assessed.

How much can be gained from the second part of Amendment 71 is not clear. The amendment "replaces" this revenue by allowing the legislature to enact a law to move assessment and payment of personal property taxes on motor vehicles forward one year. Undeniably, this would result in more revenue from that portion of personal property, which represents about fifty percent of all personal property. The increase comes from : (1) fewer registered and assessed cars which will leave the state prior to payment of taxes; (2) less depreciation loss will occur on newer model autos; and (3) natural growth in the number of vehicles owned in the state will be taxed sooner.

Yet, the available data do not support the conclusion that this change will compensate for all the lost revenue from household property. We estimate that changing the tax year of motor vehicles could increase property revenue by about $7-9 million for the state, mostly from the lower depreciation

figures and earlier assessment of motor vehicles. This is less than one-half of the estimated revenue loss from SJR8, and indicates that the state's taxing units would lose over $10 million annually.

To make matters worse is that the legislature has not acted on the law which would permit this treatment of automobiles. It is still stuck in a committee.

In addition, one legacy of Amendment 59 for the unequalized districts is that the loss of household tax revenue could force personal millage rates to increase. This would happen in those districts where the real and personal property are not yet equalized. In a state supreme court decision in 1990, millage rates were permitted to rise when the assessment of personal property fell. Amendment 59 froze the yield not the tax rate. Therefore, only those districts which have equalized will be placed at a disadvantage.

Alternatively, the director of the Assessment Coordination Division of State Government suggested that household property could be removed from the base year calculations, thereby adjusting the revenue figure downward and avoiding the prospect of a "roll-up." Unfortunately, not only is this procedure not mentioned in either Amendment, 59 or 71, but also it would be extremely difficult to know with any precision what the household property was worth from the base-year tax records of most Arkansas counties. Therefore, this particular alternative which could prove expensive is also impossible.

Alternative Sources of Revenue

The time seems ripe for some alternative sources of revenues to be tapped to make up for the losses. The following have been suggested:

1. Assess and collect personal property tax on automobiles and trucks at the time of registration on the vehicle. Potential revenue: $7-9 million.

2. Reduce the allowable variation in the assessment ratios of the counties from a range of 18-22 percent to a range of 19-21 percent. Potential revenue: unknown.

3. Exempt the purchases of school districts from the state sales tax. Potential revenue: unknown.

4. Rebate on sales taxes paid by schools on certain items. Potential revenue: unknown.

5. Increase the amount of severance tax that is charged on the state's energy and mineral resources to five percent of market value. Potential revenue: a minimum of $24 million.

6. Institute a per-bottle and can tax on soft drinks that are sold in the state. Potential revenue: unknown.

7. Eliminate or reduce the sales tax exemptions. Potential revenue: $150-300 million.

8. Tax intangible personal property. A tax could be levied on bank accounts, stocks, bonds, and brokerage accounts. Potential Revenue: unknown.

Conclusion

Arkansas has been depleting its tax base. The result has been and will continue to be higher taxes on the remainder unless the law can be expended in some fashion. Something has to give.

EA024937

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement (OERI)
Educational Resources Information Center (ERIC)

REPRODUCTION RELEASE

(Specific Document)

I. DOCUMENT IDENTIFICATION:

Title: Arkansas' Disappearing Tax Base	
Author(s): Martin Schoppmeyer and Tommy Venters	
Corporate Source: n/a	Publication Date: March 1993

II. REPRODUCTION RELEASE:

In order to disseminate as widely as possible timely and significant materials of interest to the educational community, documents announced in the monthly abstract journal of the ERIC system, *Resources in Education* (RIE), are usually made available to users in microfiche, reproduced paper copy, and electronic/optical media, and sold through the ERIC Document Reproduction Service (EDRS) or other ERIC vendors. Credit is given to the source of each document, and, if reproduction release is granted, one of the following notices is affixed to the document.

If permission is granted to reproduce the identified document, please CHECK ONE of the following options and sign the release below.

☒ ← **Sample sticker to be affixed to document**

Check here

Permitting microfiche (4" x 6" film), paper copy, electronic, and optical media reproduction

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

Sample

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)"

Level 1

Sample sticker to be affixed to document →

"PERMISSION TO REPRODUCE THIS MATERIAL IN OTHER THAN PAPER COPY HAS BEEN GRANTED BY

Sample

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)"

Level 2

☐

or here

Permitting reproduction in other than paper copy

Sign Here, Please

Documents will be processed as indicated provided reproduction quality permits. If permission to reproduce is granted, but neither box is checked, documents will be processed at Level 1.

"I hereby grant to the Educational Resources Information Center (ERIC) nonexclusive permission to reproduce this document as indicated above. Reproduction from the ERIC microfiche or electronic/optical media by persons other than ERIC employees and its system contractors requires permission from the copyright holder. Exception is made for non-profit reproduction by libraries and other service agencies to satisfy information needs of educators in response to discrete inquiries."

Signature:	Position: Professor of Educational Admn
Printed Name: Martin W. Schoppmeyer	Organization: University of Arkansas
Address: 234 Graduate Education Bldg Fayetteville, AR 72701	Telephone Number: (501) 575-5112
	Date: May 11, 1993

OVER